

FISCAL NOTE

Bill #: HB0302

Title: School employee health insurance pool

Primary Sponsor: Lewis, D

Status: Third Reading

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
Expenditures:		
Other - Proprietary	\$744,333	\$116,969,230
Revenue:		
Other - Proprietary	\$1,228,460	\$118,940,770
Net Impact on General Fund Balance:	\$0	\$0

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Commerce – Board of Investments

1. HB 302 as amended creates a uniform statewide public school risk pool and health benefit plans for K-12 public school employees. The plan would be administered by a Public School Benefits Board (PSB Board), which is administratively attached to the Department of Administration.
2. The Board of Investments is authorized to provide a loan in the amount of \$1.2 million and a line of credit up to \$18 million to the PSB Board. On July 1, 2003, a loan would be made in the amount of \$1.2 million for implementing the plans. On June 30, 2004, \$2 million would be drawn down on the line of credit. The term of the loan and the line of credit would be ten years.
3. The loan and the line of credit would be made under the Board of Investments' INTERCAP loan program. INTERCAP is a variable rate loan program whose interest rate changes every February 16th. Loan repayment is based on an interest rate of 3.0% for FY 2004 and 4.25% for FY 2005 (actual rates may be less or more during the term of the loans).
4. The \$1.2 million loan and the initial \$2 million draw on the line of credit would require interest only payments on August 15, 2003 and August 15, 2004, respectively. Thereafter, semi-annual principal and interest payments are required every February 15th and August 15th.
5. Repayment of the INTERCAP loan and line of credit would come from premiums charged for core and other group benefits.

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Department of Administration

6. As an agency allocated to the Department of Administration for administrative purposes, the agency created to administer the statewide public school risk pool and health benefit plans, here-in-after referred to as the a Public School Benefits Program (PSB) will be considered a component unit of the State of Montana and all funds flowing through this agency will be considered state funds subject to the State Treasury Rules. A Board that oversees and directs the operations of the program, and hires and manages its own staff will head PSB. PSB will utilize the SABHRS financial module to record its financial activity and annual financial reports will be incorporated into the State's CAFR. The cost for this is included in assumption 8.
7. eBenX Strategic Health Care Consulting, a Seattle based company specializing in health insurance consulting, conducted a study and prepared actuarial projections of the proposed Montana statewide K12 health program, which are presented in a report with this same name. Many of the assumptions used in preparation of this fiscal note (for example: plan participation levels, premium revenues, and administrative and claim costs) were derived from this report.
8. The Board will determine which functions will be performed by employees hired by PSB and which functions will be contracted out to private vendors. For purposes of this fiscal note it is assumed that PSB will employ an executive director, a benefits officer, an administrative aide, and an accountant, to coordinate and administer daily activities and information flow, and provide accountability between the Board, the private contract providers, and the Department of Administration. The PSB staff will provide basic clerical duties, accounting and budgeting, contract and RFP preparation, and legal services. These staff members are non-classified state employees, paid through the State's Central Payroll program, and are members of the State's Health Benefits program. Salaries for these staff are equivalent to the market salary level of similar classified positions within the State Employee Benefits Bureau (Executive Director~\$60,819; Benefits Officer~\$41,577; Administrative Aide~\$23,999; Accountant~\$37,816. Total salary expense, with benefits is \$211,000.
9. Start up office equipment is assumed to be \$3,000 per staff member for a total of \$12,000 in FY 2004.
10. Internal operating costs, other than personal services, and rent, would be proportionately similar to the internal operating costs of the State's Employee Benefit Bureau. Estimated internal operating costs, which include audit costs, have been calculated at \$189,000 in fiscal years 2004 and 2005.
11. Independently from the State Employee Benefits Bureau, PSB will contract with private companies for: the development of the public school risk pool and health benefit plans; marketing and enrollment in these plans; actuarial and consulting services; managed care and claims administration services; record-keeping; premium collections and other services necessary for the provision of plan benefits which consist of hospitalization, health, medical, surgical, vision, dental, disability, life insurance, and other related group insurance benefits, for the estimated 16,250 members, and their dependents, which will participate in the plan (a total of approximately 48,750 participants). Any payroll costs associated with benefits processing are considered to be born by the individual school groups participating in the public school risk pool and health benefit plans, and are not a part of this fiscal note.
12. PSB will lease 800 sq. ft. of non-DOA office space at \$10/sq. ft./yr for an annual rent cost of \$8,000.
13. Health benefits to plan participants, and premium deductions from employees' payroll, will begin on July 1, 2004. All start-up activities will begin on July 1, 2003, meaning that all employees of PSB will be employed as of this date.
14. Based on the study performed by eBenX, the projected annual claims cost for the statewide public school risk pool and health benefit program, for the plan year beginning July 1, 2004, would total \$110.655 million.

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15. Administrative expenses include the cost of staffing and administration of the Public School Benefits Board, claims processing, eligibility and premium payment processing, actuarial analysis and utilization management efforts.
16. Contracts with providers of health care consultation, actuary analysis, claims administration, managed care contracts, training/education/enrollment will total \$250,000 in FY 2004 and \$5.514 million in FY 2005.
17. Projected premiums/member/month (calculated in eBenX report), from which claims and administrative expenses would be paid, and rate of participation in each plan, is shown below. Participation is based on current enrollment in similar plans currently available within the individual school and coop health plans (as indicated in the actuarial study by eBenX):
 - a. \$562 for the Standard Medical Benefit Plan design (80%);
 - b. \$450 for the Basic Benefit Plan with less rich medical benefits (20%);
 - c. \$55 for the Optional Dental Rider (85%); and
 - d. \$14 for the Optional Vision Rider (82%).Assuming a member count of 16,250, premium revenues would be \$116.577 million. Note that this cost does not include the cost of repaying the loan and building reserves.
18. Investment of the portion of the \$1.2 million loan proceeds obtained July 1, 2003, which remains invested will earn interest from the Board of Investments Short Term Investment Pool (STIP). STIP rates are assumed to be 3.29% in FY 2004 and 4.57% in FY 2005. Assuming that the average STIP balance is \$865,000 in FY 2004 and \$1,265,000 in FY 2005, interest earnings are \$28,460 in FY 2004 and \$57,811 in FY 2005. Reserve levels that could be established in FY 2005 will be minimal, if at all in this first year of operation. For purposes of this fiscal note it is assumed that reserves are not sufficient to generate any investment returns.
19. The principle and interest expense in FY 2004 is \$74,333 and in FY 2005 is \$283,030 (see assumptions 2 and 3).
20. Premiums and interest earned received in FY 2005 will cover the cost of debt service for start-up costs of \$1.2 million and the \$2 million draw. Debt service is estimated at \$357,363 and interest earned is \$86,271. The net increase in premiums will be \$271,092 in FY 2005.
21. It is assumed that the PSB obtains Aggregate only Stop Loss insurance for the Health Plan for total claim costs that exceed 115% of the Plan's total expected paid claims liability. The cost to the plan, based on enrollment of 16,250 members, is \$0.56/member/month (estimate based on discussion with eBenx actuary). The total annual cost for stop loss insurance is \$109,200. Costs for stop loss insurance will depend on the exact type and amount of stop loss insurance chosen by the PSB board.

Office of Public Instruction

22. HB 302 creates a statewide health insurance plan for school district employees. Coverage under the plan will be available for school districts in FY2005.
23. HB 302 has no impact on the Office of Public Instruction or the distribution of state support for schools.

FISCAL IMPACT:

	FY 2004 <u>Difference</u>	FY 2005 <u>Difference</u>
FTE	4.00	4.00
<u>Expenditures:</u>		
Personal Services (DofA)	\$211,000	\$211,000
Operating Expenses	447,000	5,820,200

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Equipment	12,000	0
Claims	0	110,655,000
Debt Service	<u>74,333</u>	<u>283,030</u>
TOTAL	\$744,333	\$116,969,230

Funding of Expenditures:

Proprietary (06)	\$744,333	\$116,969,230
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Revenues:

Proprietary – premium (06)	\$0	\$116,882,959
Proprietary – interest (06)	28,460	57,811
Proprietary - loan proceeds (06)	<u>1,200,000</u>	<u>2,000,000</u>
TOTAL	\$1,228,460	\$118,940,770

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

Proprietary (06)	\$484,127	\$1,971,540
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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

It is estimated that public schools spend in excess of \$75 million annually for health insurance coverage for employees. Employees also make significant expenditures toward premiums and out-of-pocket medical costs. If this plan can reduce costs by a small percentage, school districts and their employees could save on health care expenditures.

The benefits of the statewide pool will vary from district to district depending on the current health care experience of the district. The statewide pool may cost districts with favorable experience more than their health insurance rates.

LONG-RANGE IMPACTS:

Claims costs in the health field have seen significant increases over the past several years. Historically the State Health Benefit Plan was experiencing growth trends in medical claim volumes up to 8% per year. In 2002, the state plan experienced closer to a 12% growth trend. Premium rates, plan benefits and plan options for the PSB will need to be evaluated and adjusted annually to keep pace with the growth trends, primarily in medical and prescription drug costs. The fiscal impact of a potential growth in claims costs and premium rates has not been estimated in this fiscal note.

TECHNICAL NOTES:

The interest rates charged borrowers from year to year are directly impacted by the market conditions when the bonds funding the loans are remarketed. While the amortization of repayments is calculated at 3.0% and 4.25% in this fiscal note, the Board of Investments does not control the interest rates. In any given year during the term of the loan, the borrower could have to pay significantly more than the referenced interest rate.